

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6575

BILL NUMBER: HB 1085

NOTE PREPARED: Dec 15, 2003

BILL AMENDED:

SUBJECT: Drug Tax Exemption and Drug Repository Program.

FIRST AUTHOR: Rep. Reske

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: ☒ GENERAL
☒ DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: The bill provides a Sales Tax exemption for nonprescription drugs.

It also establishes the Regional Drug Repository Program to distribute donated drugs to nonprofit health clinics.

Effective Date: July 1, 2004.

Explanation of State Expenditures: *Drug Repository Program:* This bill allows the Board of Pharmacy to enter into a voluntary agreement with certain entities to serve as a regional drug repository for the redistribution of donated drugs to nonprofit clinics. An entity that serves as a repository must hold a controlled substances registration and may not receive compensation for participating. A repository may accept donated unadulterated drugs from pharmacies, drug manufacturers and distributors, and certain health care facilities. The repository may donate drugs received to a: (1) federally qualified health center, (2) rural health clinic, or (3) a nonprofit health clinic that meets certain guidelines. These clinics may experience reduced expenditures for medications to the extent that returned medications can be reused.

Background Information: The Office of Medicaid Policy and Planning estimates the annual credit to Medicaid associated with returned medications is approximately \$1 M per year. The state's share of this amount is about \$380,000. This may increase the amount of drugs returned and credited to Medicaid. However, any impact would be contingent upon the amount of unused prescription drugs returned that were paid for by the state Medicaid program and would not otherwise have been credited to the Medicaid program.

Explanation of State Revenues: *Sales Tax Exemption for Nonprescription Drugs:* This bill creates a broad

Sales Tax exemption on the sale of nonprescription drugs, beginning July 1, 2005. (Current law exempts prescription drug sales from the state's Sales Tax.) Based on adjusted data from industry sources, it is estimated that exempting nonprescription drugs from the state's Sales Tax could reduce state revenue by \$15.4M in FY 2005 and \$16.9M in FY 2006. Due to the timing of the remittance of Sales Tax collections from retailers, the exemption is expected only to impact 11 months of Sales Tax collections in FY 2005.

Sales Tax revenue is deposited in the: Property Tax Replacement Fund (50%), the state General Fund (49.192%), the Public Mass Transportation Fund (0.635%), the Commuter Rail Service Fund (0.14%), and the Industrial Rail Service Fund (0.033%). The annual reductions to these funds for FY 2006 (the first full year of impact) are estimated to be:

Property Tax Replacement Fund	\$ 8,450,000
State General Fund	8,313,448
Public Mass Transit Fund	107,315
Industrial Rail Service Fund	23,660
Commuter Rail Service Fund	<u>5,577</u>
Total	\$ 16,900,000

Background Information: Industry data report that 2002 nonprescription drug sales in the U.S. ranged from \$10.5 B to \$17.3 B. The sector is estimated to increase at about 1% each year. Assuming that these drug sales will continue to increase at this rate and that Indiana's share of nonprescription drug sales is the same as its share of U.S. Disposable Personal Income, it is estimated that Indiana residents purchase about 2% of all nonprescription drugs sold each year. Based on these assumptions, it is estimated that taxable sales of nonprescription drugs in Indiana will be between \$214.5 M and \$346.3 M in FY 2005. The estimate shown above is based on the midpoint between this range.

Explanation of Local Expenditures: This bill potentially reduces clinic expenditures for prescription drugs.

Explanation of Local Revenues:

State Agencies Affected: Family and Social Services Administration; State Board of Pharmacy; Department of Family and Social Services; Department of State Revenue.

Local Agencies Affected:

Information Sources: Information Resources, Inc., as cited in Private Label Buyer, Nov 2002; Consumer Health Products Association, www.chpa-info.org; Marc Shirley, Program Director, Pharmacy, Office of Medicaid Policy and Planning, 317-232-4343.

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